AUDIT REPORT

Travel and Hospitality

March 2012

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1.0 Executive Summary

1.1 Background and Context

The audit of Travel & Hospitality was approved as part of the 2011/12 FedDev Ontario risk-based Internal Audit Plan.

Travel expenditures for FedDev Ontario are governed by the National Joint Council's *Travel Directive* and the Treasury Board Secretariat (TBS) *Directive on Management of Expenditures on Travel, Hospitality and Conferences*. This Directive provides for fair treatment of employees required to travel on government business together with the reimbursement of reasonable expenses such as transportation, accommodations, meals and incidental expenses.

Hospitality in the federal government is the provision of refreshments, meals, and sometimes entertainment to guests of government departments or agencies. The rules and principles governing FedDev Ontario hospitality are outlined in the TBS Directive on the Management of Expenditures on Travel, Hospitality and Conferences. The Directive is intended to ensure that hospitality is extended in an appropriate, economical and consistent way to facilitate government business or when it is considered desirable as a matter of courtesy and protocol.

The audit engagement assesses the adequacy of the management control framework for travel and hospitality within FedDev Ontario and provides assurance that travel and hospitality expenditures are in compliance with applicable policies and directives.

The audit scope includes transactions during the period from April 1, 2010 to December 31, 2011. This period also represents a time of transition. Significant changes occurred in the management and staffing of the Finance Operations function that acted to stabilize and improve the travel and hospitality functions.

1.2 Overall Assessment / Audit Opinion

Within the limitations of sample testing and audit procedures performed, we conclude that overall there is general compliance with Government of Canada and FedDev Ontario policies and directives pertaining to travel and hospitality.

In our opinion, the area of travel and hospitality is **satisfactory,** however improvements are necessary to demonstrate compliance to travel and hospitality directives (See **Annex D** for audit opinion definitions). The audit opinion is based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria that were agreed to with management. Recommendations identified in our report represent opportunities to improve processes and improve the management control framework.

1.3 Strengths

The key components of a Management Control Framework are in place and are being administered with due regard to the Directives. Specifically:

- There is general compliance with the National Joint Council's *Travel Directive* and the TBS *Directive on Travel, Hospitality and Conferences.*
- Changes to policies and directives are effectively communicated.
- Travel events are normally planned and pre-approved.
- There appears to be an effective validation process of travel claims.
- Payments associated with travel and hospitality expenses are satisfactorily controlled.
- New employees are provided training on travel and hospitality policies and practices.

1.4 Main Observations

The audit identified opportunities for improvement in the management and oversight of travel and hospitality expense reimbursement processing, as follows:

1) Journal vouchers for travel and hospitality charges made by Inter-departmental Settlements did not have supporting documentation attached.

2) Significant rework, in the processing of travel and hospitality claims, is required to ensure full compliance with the Directives resulting in delays to payment of claims and inefficient use of staff time. Similarly, 100% of travel and hospitality claims are reviewed by Finance Operations prior to payment. Staff's time could be redirected once claims processing becomes stabilized.

3) Although the Agency has been proactive in identifying situations where travel could be reduced such as providing training in-house, further opportunities for meaningful savings have been identified.

4) Cardholder agreements were not on file for the majority of American Express (Amex) cardholders. Signed agreements are important as the Agency is ultimately liable for all cardholder accounts should they become delinquent.

5) FedDev Ontario's proactive disclosure of travel and hospitality expenses for senior executives was reviewed for fiscal years 2010/11. There were some deficiencies in oversight processes that have led to inaccurate reporting.

1.5 Key Recommendations

1) Compliance to Travel and Hospitality Directives

Finance Management should reinforce the requirement to maintain supporting documentation for all journal voucher transactions, including Inter-departmental Settlements for travel claims.

2) Efficient Operations

Finance Management should address the following areas to improve the claim processing cycle time:

i) Establish and monitor performance standards for travel claim processing.

ii) Training in travel claim preparation, including tools and guidance documents, should be developed and delivered where warranted, thereby reinforcing individual accountabilities in the process related to claim accuracy and supporting documentation.

iii) Finance staff should explore the potential of automating travel claims through the use of the Expense Management Tool (EMT) through Travel AcXess Voyage (TAV).

iv) The volume of claim review by Finance Operations could be reduced from 100% should quality standards improve.

3) Opportunities for Cost Savings

Management should investigate opportunities for further cost savings through increased use of the on-line travel booking (Travel AcXess Voyage) and use of the Expense Management Tool.

4) Amex Cardholder Agreement

The signed Amex cardholder acknowledgements should be requested as needed from Industry Canada or the cardholder, and maintained on file should disputes and/or delinquencies arise.

5) Proactive Disclosure of Travel and Hospitality

Finance management should perform a reconciliation to confirm the accuracy of transactions prior to posting the disclosure for travel and hospitality.

1.6 Statement of Assurance

The audit was carried out in accordance with the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit (2006)* and the *Internal Auditing Standards for the Government of Canada (2006)*. These standards require that the audit be planned and performed so as to obtain reasonable assurance that the existing management control framework ensures compliance with the National Joint Council's *Travel Directive* and TB policies and regulations related to travel and hospitality.

Based on our professional judgement as auditors, sufficient and appropriate audit procedures have been conducted in the audit. The evidence has been gathered to provide senior management with reasonable assurance of the accuracy of the conclusions drawn from this audit.

This report and audit was conducted for FedDev Ontario management purposes. Use of this report for other purposes may not be appropriate.

2.0 About the Audit

2.1 Background

Compliance Requirement

Travel expenditures for FedDev Ontario are governed by the National Joint Council's *Travel Directive*, TBS *Directive on Management of Expenditures on Travel, Hospitality and Conferences,* and TBS *Special Travel Authorities*. The purpose of these directives is to provide for the reimbursement of reasonable expenses necessarily incurred during travel on government business.

The Government of Canada extends hospitality in accordance with the rules and principles outlined in the TBS Directive on the Management of Expenditures on Travel, Hospitality and Conferences. The objective of the policy is to ensure that hospitality is extended in an economical and affordable way when it facilitates government business or is considered desirable as a matter of courtesy and protocol.

To provide transparency for travel and hospitality expenditures, departments are required to disclose travel and hospitality expenses. This requires the timely posting, on Internet accessible web sites, of travel and hospitality expenditures by Ministers, Parliamentary Secretaries and their exempt staff, and Deputy Ministers and other senior level employees.

Roles

Chief Financial Officers support deputy heads by establishing and maintaining effective departmental systems of internal control.

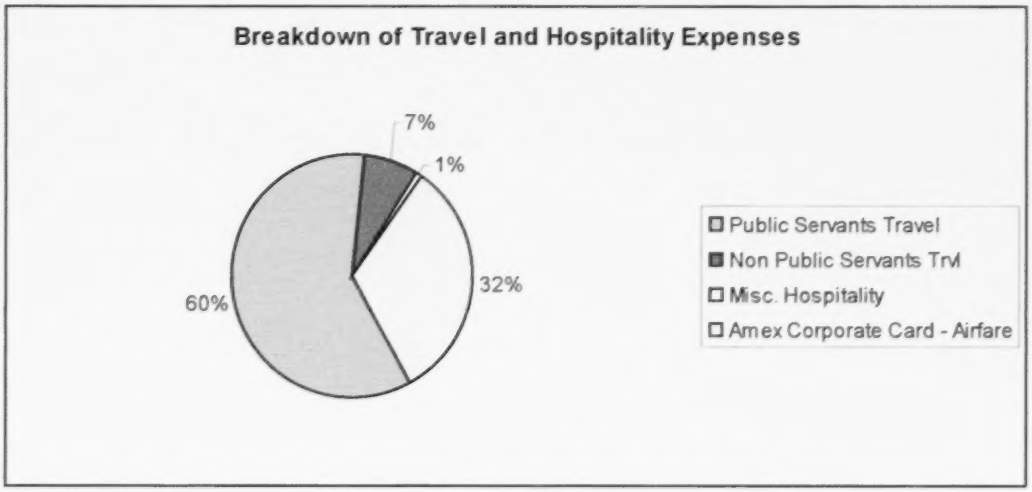
FedDev Ontario's Finance Department is responsible for internal financial policies, monitoring and systems related to travel expenses. They are also responsible for the

final processing of the travel claims for payment under Section 33 of the *Financial Administration Act (FAA)*, following approval by the delegated manager who exercises his/her authority under Sections 32 and 34 of the FAA.

Three finance staff are involved in the processing of expense claims through the SAP financial system. Payments are made by the Receiver General either by cheque or direct deposit. Proactive disclosure of travel expenditures for FedDev Ontario senior management and executives is performed monthly.

Activity

FedDev Ontario depends on travel and hospitality to facilitate the operations of its various services. Travel and hospitality was budgeted at 4% of the 2010/11 operating budget. Travel claims totalled $898K and hospitality claims totalled $10.6K for fiscal year 2010/11.



Note: Non Public Servants travel refers to travel incurred by consultants.

2.2 Key Risks

Travel and hospitality support processes represent a moderate risk. The key risks affecting the processing of travel and hospitality expenditures for FedDev Ontario include:

- Public perception of government travel expenditures.
- Improper interpretation or application of the policies due to insufficient training.
- Inadequate oversight of the application of the Travel Directive and guidance on hospitality.
- Non-compliant disclosure related to travel and hospitality expenses.
- Inefficient claims processing activities due to unclear roles and responsibilities, inadequate or inconsistent controls and locally developed processes.
- Ineligible or unreasonable expenses and lack of documentation.
- Inappropriate use of Amex travel cards or BMO acquisition card.

2.3 Audit Objectives

Our overall objective was to assess the management control framework and provide assurance that travel and hospitality practices comply with the National Joint Council's *Travel Directive* and the TBS *Directive on Management of Expenditures on Travel, Hospitality and Conferences*.

Specifically, the objectives of the audit were to review and assess travel and hospitality claims processes:

- To ensure adequate mechanisms are in place to promote general oversight, timely and informed decisions, clear accountabilities, effective communication, and appropriate skills and capacity;
- To ensure that key risks are identified, assessed and managed;
- To provide assurance that travel and hospitality expenditures are in compliance with policies and directives, efficiently processed, and appropriately authorized and discharged.

The audit team expected to find that:

- Expenditures are pre-authorized;
- Supporting documentation is on file;
- Expenditures are in compliance with the travel directive;
- Expenditures are published on FedDev Ontario's external website as required;
- The Government Travel Service Provider is used for booking travel;
- Proper controls exist over travel advances;
- Travel and acquisition cards are used for authorized purposes only.

2.4 Audit Scope

The audit entailed a comprehensive review through financial controls testing and sample testing of travel and hospitality expense reimbursements (claims) and related purchases made on American Express travel cards and Bank of Montreal (BMO) acquisition cards.

The audit focused on travel and hospitality expenses processed between April 1, 2010 and December 31, 2011 to determine if accepted policies are being followed.

2.5 Audit Approach

The following activities were undertaken by the audit team in the performance of this engagement:

- Reviewed and examined the requirements of the National Joint Council's *Travel Directive* and the TBS *Directive on the Management of Expenditures on Travel, Hospitality and Conferences*;
- Conducted planning activities such as the identification and documentation of the travel and hospitality management control frameworks including a risk assessment, resulting in an Audit Planning Memorandum, describing the population of travel and hospitality expenditures across the Department and outlining the proposed audit approach, audit criteria, sampling plan and audit program;
- Conducted interviews and inquiries with selected Finance department staff and travelers;
- Analyzed the planning and monitoring programs in place over travel and hospitality expenses;
- Undertook detailed transaction testing of travel and hospitality expenditures; and
- Debriefed key stakeholders in the Agency on the preliminary results of the audit.

Records reviewed:

- Travel expense claims for travel, accommodation, meal, and miscellaneous expenses.
- Hospitality expense claims.
- AMEX travel card and BMO acquisition card purchases related to travel and hospitality.
- Finance department documents including signing authorities and procedures.

Sampling:

Travel
From the population of 1,206 travel claims processed in the fiscal year ended December 31, 2011, a statistical sample of 69 travel claims were examined. Proactive disclosures for travel and hospitality expenses were examined for the fiscal year 2010/11 as well.

Hospitality
From the population of approximately 69 transactions, a statistical sample of 13 hospitality expenditures was selected using dollar unit sampling.

3.0 Observations and Recommendations

The results of the audit indicate that the basic components of a management control framework exist and operate satisfactorily. The audit observations which follow result from a comparison of the desired criteria (see **Annex A**) against the actual conditions observed. Recommendations identified in our report represent opportunities to improve the control environment, improve the effectiveness of processes and demonstrate compliance to policies and directives.

3.1 Compliance to Travel and Hospitality Directives

Criteria:

Expenditures incurred for travel and hospitality are in compliance with the NJC and TBS directives and the Financial Administration Act, and represent value to the crown.

Observation:

The audit found that FedDev Ontario generally complied with Directives related to travel and hospitality, with certain exceptions. Inter-departmental Settlements for travel claims generally did not have documentation attached to support the travel claim being charged via journal voucher. As required under section 9 (1) of the FAA, documentation supporting journal voucher transactions should be maintained and retained for monitoring and audit purposes.

Impact:

Risk of inability to demonstrate consistent following of travel and hospitality directives, and demonstrate openness and fairness, as well economy and efficiency.

Recommendation:

Finance Management should reinforce the requirement to maintain supporting documentation for all journal voucher transactions, including Inter-departmental Settlements for travel claims.

3.2 Efficient Operations

Criteria:

An adequate monitoring and verification system is in place to identify and communicate operational issues and subsequent reporting to management is conducted in a clear, comprehensive, consistent and timely manner.

Observation:

Significant rework is generally incurred in the processing of travel and hospitality claims, resulting in delays to payment and inefficient use of staff time. The cycle time

for processing of the claims has not been calculated and measured against a standard.

Some of the issues identified that result in rework have included:

- Incorrect rates being applied;
- Insufficient documentation to support the travel claim;
- Lack of a travel pre-approval form attached to claims when a Blanket Travel Authority has not been set-up;
- Lack of training authorization or conference pre-approval forms attached to claims;
- Sign-off issues with FAA section 32 and 34 (i.e. no date, signed by wrong person, no paperwork to show signing authority areas);
- Itineraries not included on the claim;
- Use of non-PWGSC-listed hotels and car rental agencies without justifications being provided.

Currently 100% of travel and hospitality claims are reviewed by Finance Operations prior to payment. Staff's time could be redirected once claims processing becomes stabilized.

Impact: Risk of the inability to identify and report in a timely manner on exceptions and trends.

Recommendation:

Finance Management should address the following areas to improve the claim processing cycle time:

i) Establish and monitor performance standards for travel claim processing.

ii) Training in travel claim preparation, including tools and guidance documents, should be developed and delivered where warranted, thereby reinforcing individual accountabilities in the process related to claim accuracy and supporting documentation.

iii) Finance staff should explore automating travel claims thereby reducing errors in expense claim preparation. The Expense Management Tool is a service available online through Travel AcXess Voyage that is an integrated travel solution - from planning and booking travel to expense claim settlement. Benefits include travel management reporting on travel costs, analysis of travel patterns and spending trends, ability to detect misuse of funds, ability to monitor policy compliance, and built-in proactive disclosure reporting.

iv) The volume of claim review by Finance Operations could be reduced should quality standards improve.

3.3 Opportunities for Cost Savings

Criteria:

Expenditures incurred for travel and hospitality are in compliance with the TBS travel and hospitality policies and directives and FedDev Ontario policies and represent value to the crown.

Observation:

Although the Agency has been proactive in identifying areas of reducing travel such as providing training in-house, further opportunities for meaningful savings were identified:

- Currently most FedDev Ontario travellers are booking travel through an agent resulting, in some cases, in higher administration costs to FedDev Ontario. Travellers have the option of either contacting an agent at American Express Travel Service by phone (at a cost of $50 per booking) or making their travel arrangements on-line ($19.50 per booking) through travel AcXess Voyage.

- Travel claims could be automated with the assistance of the Expense Management Tool (EMT), thereby generating savings in claim preparation, rework and reporting on travel spending.

Impact: Travel may not be conducted in the most cost effective manner resulting in higher expenses to the crown.

Recommendation:

Management should investigate opportunities for further cost savings through increased use of the on-line travel booking (Travel AcXess Voyage) and use of the Expense Management Tool.

3.4 Amex Cardholder Agreement

Criteria: Controls are in place for effective issuance and monitoring of travel card use.

Observation:

Cardholder acknowledgements were not on file for 31 of 44 Amex cardholders. Although these cards may have been issued by Industry Canada, it is important for FedDev Ontario to have on hand copies of the original acknowledgements. Ultimately the Agency is liable for all cardholder accounts should they become delinquent.

As per the TBS Directive on Travel Cards and Travellers Cheques, the departmental travel card coordinator is responsible for receipt of written acknowledgements of responsibilities and obligations from the cardholder.

Impact: Risk that unpaid balances become the liability of the crown.

Recommendation:

The signed Amex cardholder acknowledgements should be requested as needed from Industry Canada or the cardholder, and maintained on file should disputes and/or delinquencies arise.

3.5 Proactive Disclosure of Travel and Hospitality Expenses

Criteria: The TBS guideline on Disclosure of Travel and Hospital Expenses requires the mandatory publication of travel and hospitality expenses for selected government officials.

Observation: FedDev Ontario's proactive disclosure of travel and hospitality expenses for senior executives was reviewed for fiscal year 2010/2011. Internal audit identified that the proactive disclosure for the period of March 2 to June 1, 2010 was under reported by $14K due to deficiencies in oversight processes. The disclosure was corrected as of July 2011.

Impact: There is potential reputation risk when proactive disclosures are inaccurately reported.

Recommendation:

Finance Management should perform a reconciliation to confirm the accuracy of transactions prior to posting the disclosure for travel and hospitality.

Annex A: Audit Objectives and Criteria

Objective 1: **Management Control Framework** - To ensure adequate mechanisms for i) general oversight, (ii) timely and informed decisions, (iii) clear accountabilities, (iv) effective communication, (v) appropriate skills and capacity.
1. **Policies and guidelines** are consistent with applicable government policies, regulations and legislation relating to Travel and Hospitality.
2. **Roles and responsibilities**, including the FDO authority framework for travel and hospitality, are clearly defined. Duties are adequately segregated (approving travel/hospitality claims, processing, and payment functions).
3. **Training and communication**: Sufficient and relevant information is provided to all employees, including, to make them fully aware of their roles and responsibilities.
4. **Planning:** There is an appropriate amount of travel planning between the traveller and his or her delegated manager prior to authorizing travel. (decisions)
5. **Monitoring and Reporting**: An adequate monitoring and verification system is in place to identify and communicate operational issues and subsequent reporting to management is conducted in a clear, comprehensive, consistent and timely manner.
Objective 2: **Risk Management** - Key risks should be identified, assessed and managed.
1. Mechanisms are in place to identify, assess and manage risks related to travel and hospitality claims.
2. Management practices are effective in taking action where risks, vulnerabilities, control deficiencies, or failures emerge.
Objective 3: **Internal Control** - To provide assurance that travel and hospitality expenditures are in compliance with policies and directives, efficiently processed, and appropriately authorized and discharged.
1. **Pre-authorization** Sec 32 FAA – Funds commitment/availability is certified by someone with the delegated authority prior to the expenditure initiation at the value expected to be incurred.
2. **Account verification** – The performance of account verification is done by someone with the delegated authority to do so, is accomplished on a timely basis and verifies the correctness of the payment requested.
3. **Payment authority** - The payment and settlement authority is carried out by someone with proper delegation of authority and for the correct dollar amount, and to the right vendor on a timely basis.
4. **Expenditures match Directives** - Expenditures incurred for travel and hospitality are in compliance with the TBS travel and hospitality policies and directives and FedDev Ontario policies and represent value to the crown.
5. **Proactive Disclosure** The TBS guideline on Disclosure of Travel and Hospital Expenses requires the mandatory publication of travel and hospitality expenses for selected government officials.
6. **Amex Travel Cards** - Controls are in place for effective issuance and monitoring of travel card use.
7. **BMO Acquisition Cards** - Acquisition cards have restrictions for issuance and usage.

Annex B: Policies related to Travel and Hospitality Expenses

Acts, Regulations and Policies
National Joint Council Travel Directive (January 15, 2009)
TBS Directive on Management of Expenditures on Travel, Hospitality and Conferences (January 1, 2011)
TBS Guideline on Disclosure of Travel and Hospital Expenses (December 12, 2003)
TBS Directive on Travel Cards and Travellers Cheques (October 1, 2009)
TBS Directive on Acquisition Cards (October 1, 2009)
TBS Directive on Expenditure Initiation and Commitment Control (October 1, 2009)
TBS Directive on Delegation of Financial Authorities for Disbursements (October 1, 2009)
TBS Directive on Account Verification (October 1, 2009)
TBS Hospitality Policy (Rescinded January 1, 2011)
TBS Special Travel Authorities
The Values and Ethics Code for the Public Service
Financial Administration Act (FAA)
Shared Travel Services Initiative (STSI)
CM172 Blanket Travel Authority for the President of FedDev Ontario (Dec 17, 2009)
Draft FedDev Ontario Hospitality Policy

Annex C: Management Action Plan

Recommendation	Planned Action or Justification for No Action	Responsible Official	Target Completion Date
3.1 **Compliance to Travel and Hospitality Directives** Finance Management should reinforce the requirement to maintain supporting documentation for all journal voucher transactions, including Inter-departmental Settlements for travel claims.	Finance is requesting supporting documentation for all Inter-departmental Settlement transactions. Documentation for prior fiscal years was requested and the originating department denied the request citing that as they initiated the payment, documentation is to reside with them. Finance expedited the process of posting FedDev's own transactions to increase control over this function.	Senior Finance Officer	Completed December 2011
3.2 Efficient Operations Finance management should address the following areas to improve the claims processing cycle time by: i) Establish and monitor performance standards for travel claim processing.	Part i) Finance has implemented a tracking spreadsheet to monitor and date the flow of invoices from receipt to signature and eventual payment. This document tracks not only regular invoices, but travel and hospitality claims as well. The dating system allows for calculation of processing times and notations related to events causing any unanticipated delays and exceptional circumstances.	Finance Administrative Assistant, Finance Officer	Completed December 2011
ii) Training in travel claim preparation, including tools and guidance documents, should be developed and delivered where warranted,	Part ii) PHASE 1: Training with all Administrative Staff across the Agency was rolled out December 2011 and January 2012.	Finance Administrative Assistant, Finance Officer	Completed January 2012

Recommendation	Planned Action or Justification for No Action	Responsible Official	Target Completion Date
thereby reinforcing individual accountabilities in the process related to claim accuracy and supporting documentation.	PHASE 2: Additional documentation on how to complete travel claims has been uploaded to FedDev's Wiki. Finance is also communicating with the Admin community when changes are required so as to provide guidance on correctly completing claims and having claimants understand any changes to their entitlements.	Senior Finance Officer, Finance Officer	Ongoing
iii) Finance staff should explore automating travel claims thereby reducing errors in expense claim preparation. The Expense Management Tool is a service available online through Travel AcXess Voyage that is an integrated travel solution - from planning and booking travel to expense claim settlement. Benefits include travel management reporting on travel costs, analysis of travel patterns and spending trends, ability to detect misuse of funds, ability to monitor policy compliance, and	Part iii) PHASE I: Finance has communicated with PWGSC with regards to the configuration and required training for implementation of the Expense Management Tool. This option has been examined, a plan developed, and is being considered for implementation in 2012-13. PHASE 2: Configuration, launch and related training, pending Executive Committee approval of the new system is targeted for fiscal year 2012-2013.	Manager, Financial Operations, Senior Finance Officer Manager, Financial Operations, Senior Finance Officer	Targeted Executive Committee Approval June 2012 Targeted Project Launch October 2012

Recommendation	Planned Action or Justification for No Action	Responsible Official	Target Completion Date
built-in proactive disclosure reporting. iv) The volume of claim review by Finance Operations could be reduced should quality standards improve.	Finance currently performs verification of 100% of claims, however, we are monitoring the quality standards to measure the effectiveness of recently delivered training. Once quality standards improve, we will be move to a more risk based approach to claim review. Training will continue to be provided on an ongoing basis and members of the Finance Operations team will provide ongoing support to the agency's staff with the interpretation and application of the NJC Travel Directive. Potential implementation of the Expense Management Tool will also assist in automating the travel process and reducing errors associated with rate changes and estimates.	Finance Officer, Senior Finance Officer	Ongoing
3.3 **Opportunities for Cost Savings** Management should investigate opportunities for further cost savings through increased use of the on-line travel booking (Travel AcXess Voyage) and use of the Expense Management Tool.	Multi-tiered approach: 1. The Greening IT Initiative (i.e. video conferencing) is expected to reduce costs by reducing frequency of travel tied to meetings. 2. Expansion of the Agency's fleet vehicles is expected to reduce costs associated with public servant ground travel. The agency has also placed emphasis on using energy efficient vehicles as part of its fleet renewal strategy.	Manager IM/IT, Accommodations Officer Manager IM/IT	Ongoing Completed March 2012

Recommendation	Planned Action or Justification for No Action	Responsible Official	Target Completion Date
	3. Pending Executive Committee approval, Finance will work with PWGSC on the implementation of the Expense Management Tool and promotion of the online booking tool to reduce transaction fees and improve efficiency of the travel program.	Manager, Financial Operations, Senior Finance Officer	Targeted Executive Committee Approval June 2012
3.4 **Amex Cardholder Agreement** The signed Amex cardholder acknowledgements should be requested as needed from Industry Canada or the cardholder, and maintained on file should disputes and/or delinquencies arise.	1. Documentation for prior fiscal years was requested September 2010 and the originating department denied the request citing that as they initiated the process, documentation is to reside with them.	Senior Finance Officer	Completed September 2010
	2. Finance expedited the process of managing the travel card program to increase control over this function.	Senior Finance Officer	Completed summer 2010
	3. Reminder notifications about cardholder responsibilities will be distributed in the new fiscal year.	Senior Finance Officer	May 2012 and ongoing
3.5 **Proactive Disclosure of Travel and Hospitality Expenses** Finance Management should perform a reconciliation to confirm the accuracy of transactions prior to posting the disclosure for travel and hospitality.	1. Reconciliations currently occur.	Senior Finance Officer	Completed September 2011
	2. This process will be documented in our internal control framework that is currently being developed.	Senior Finance Officer	June 2012

Annex D: Audit Opinion and Statement of Assurance

The auditor's opinion is based on logical and specific deductions about the audit objectives based on observations against criteria and noteworthy accomplishments in the report. Standardized language is needed in order to ensure consistency in the formulation of an opinion across different audit areas and different time periods. In addition, it allows the reader to better understand the opinion being expressed.

The options for audit opinion that can be formulated:

Option 1: **Well controlled.** Denotes strong controls in all key areas (at least one of the first two criteria needs to be met and the third criterion needs to be met):

- Well managed, no material weaknesses noted;
- Well managed, but minor improvements are needed;
- Effective and sustainable.

Option 2: **Satisfactory**. Denotes basic controls are effective in critical areas (At least one of the following two criteria need to be met):

- Some control improvement areas exist, but exposure is limited; or
- Multiple risk areas to be addressed, but exposure is not serious;
- Systems generally meet business needs.

Option 3: **Marginal.** Some key areas lack controls (Requires improvements in at least one of the following areas):

- Control deficiencies represent material exposure;
- Material opportunity for improvement;
- Systems need continued development and control.

Option 4: **Requires Significant Improvement**. Situations where *pervasive* material weaknesses exist in overall internal control structure, which fails to provide management with reasonable assurance that the following management objectives are being met:

- Reliability of financial reporting;
- The department is in material compliance with relevant policies, acts and regulations;
- Material assets are adequately safeguarded;
- Departmental operations are adequately economic and efficient; and
- Major program objectives are being achieved;
- Systems are adequately documented and controlled.

Statement of Assurance

The opinion is supported by a clear indication to users of the level of assurance being provided. Users need to be informed of the auditor's judgement about the confidence that may be placed in the opinion above. The Statement of Assurance, as noted in the Executive Summary, informs the reader that the auditor has conducted the engagement in accordance with the Treasury Board Policy on Internal Audit.

This section also explains that the auditor has examined sufficient, relevant evidence and obtained sufficient information and explanations to provide a reasonable level of assurance on the reported opinion or conclusions. Please note that not all assurance engagements are designed to provide, or result in providing, a reasonable level of assurance. When this is the case, the auditor's statement of assurance shall identify the circumstances (e.g. limited procedures, inconclusive evidence, etc.) that the level of assurance and shall indicate the auditor's caution on reliance on these opinions or conclusions.